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FY 1990 Budget Clears Main Hurdle

The FY 1990 general account budget, which totals Y66.2 trillion ($441.6 billion at Y150=$1.00), finally passed the lower house May 10 and now awaits action in the upper house. However, the House of Councillors, in which the opposition parties have a majority, is expected to reject the budget proposal sometime in late May as a way of voicing opposition to the continuation of the 3 percent consumption tax. The ruling Liberal Democratic Party included only minor changes in the consumption tax in its FY 1990 budget proposal. Since the Japanese constitution gives the lower house precedence over the upper chamber on budget matters, the FY 1990 budget will go into effect June 9 -- 30 days after its passage by the lower house. This will happen even if the upper house votes against the plan.

Since the FY 1990 budget was in limbo for the April 1 start of the fiscal year, the Diet passed a 50-day provisional budget of Y10.2 trillion ($68 billion). This stopgap measure will expire May 20, and the administration of Toshiki Kaifu will have to prepare a second temporary authorization, the first time such a move has been needed since 1955. The second spending bridge is for Y2 trillion ($13.3 billion) for 19 days starting May 21.

Although the FY 1990 budget will go into effect in early June, the fight over the consumption tax is expected to continue. The opposition parties used Diet consideration of the budget to protest the controversial consumption tax. To break the political stalemate the LDP and the opposition parties finally agreed in early May to set up special committees on taxation in both chambers. These committees will address primarily problems related to the consumption tax and tax reform. The upper house committee is expected to be under the direction of Yoshio Inoue, a former head of the Hokkaido and Okinawa Development Agencies. The lower house committee is scheduled to be chaired by Taku Yamazaki, an ex-director general of the Japan Defense Agency and a former vice cabinet secretary. Political analysts note that Mr. Yamazaki not only has no expertise on tax matters but as a member of the small LDP faction led by Michio Watanabe lacks political clout within the party. His nomination suggests to them that the LDP is not prepared to compromise on the consumption tax by freezing or abolishing it in the future. Rather, the LDP, which regained confidence after winning big in the February 18 lower house elections, has begun to attack the opposition parties, charging that abolition of the consumption tax is unrealistic and fiscally irresponsible.

The Japan Socialist Party, the biggest opposition group, has maintained its past stance urging repeal of the tax. Komeito and the Democratic Socialist Party, which were damaged in the February lower house elections because of their image of being JSP puppets, gradually have been changing their attitude toward the consumption tax to separate their political image from that of the JSP in the public's eyes. The possibility that one or both of these parties could form an upper house coalition with the LDP rather than the JSP makes the matter more complicated (see article in this issue).

In order to change, freeze or abolish the consumption tax, both chambers must pass amendments to the tax code. If the current Diet session, which ends June 26, cannot agree on modifications to the consumption tax legislation, then initial FY 1990 general account revenues will be revised upward. How much depends on the proposal, but the LDP compromise included in the FY 1990 budget is estimated to cost the government Y87 billion ($580 million) in lost revenue. Many analysts see a very slight chance of reaching agreement on change. They forecast that consideration of the consumption tax will be put off and addressed as the main agenda item in the special Diet session expected to be held in the autumn.

Hideo Takahashi

Prospects Dim For Formal Opposition Party Coalition

The prospect that a coalition of noncommunist opposition parties could wrest government control from the ruling Liberal Democratic Party has faded considerably in recent months, primarily due to ideological differences and weak leadership. But alignments with the LDP are not so obvious either.

Japan's political opposition has been exploring the possibility of a coalition since spring 1989. The Japan Socialist Party's unprecedented gains in the July 1989 upper house contests -- a victory that usurped LDP control of this chamber -- appeared to give additional impetus to the prospect of a formal

JSP/Komeito/Democratic Socialist Party alliance (see JEI Report No. 32A, August 18, 1989). However, the Socialists' ideological rigidity and purely reactive strategy in opposing LDP-led government initiatives continue to impair the JSP's ability to forge ties with the other two noncommunist parties. Some analysts suggest that the outcome of an upcoming special election to fill an upper house vacancy will indicate whether Komeito and the DSP will align informally with the ruling party in the upper chamber, at least on selected issues.

Voters in Fukuoka prefecture will go to the polls June 10 to select a successor to Akira Ono, a recently deceased JSP member. If a ruling party candidate wins, the LDP then would hold 112 seats in the upper house. (The LDP's tally has increased by two since last July due to realignments by conservative independents.) According to some Japanese political commentators, the ruling party could reclaim control of this chamber if it can persuade the three members of the Taxation Party to join its ranks along with two independent Diet members, Kiyoshi Nishikawa and Issei Sawada -- all of whom share philosophies quite similar to the LDP's on the controversial consumption tax. If the LDP then could win backing from the DSP, which has 10 upper house seats, it would have an informal coalition of 127, two more than the combined total of 125 for the JSP, Komeito, the Japan Communist Party, Rengo and minor parties and independents (see Tables). The DSP's new chairman, Keigo Ohuchi, reportedly has indicated a greater willingness to cooperate with the ruling party on selected issues.

Table 1: Current Upper House Party Alignment

Party	Seats
Liberal Democratic Party	111
Japan Socialist Party	73
Komeito	20
Japan Communist Party	14
Democratic Socialist Party	10
United Social Democratic Party	0
Taxation Party	3
Rengo	12
Minor Parties	6
Independents	2
Total	251*

*One seat is vacant.

In mid-March the Socialists revealed an "action plan" for 1990 that urged a revamp of the party's organization, policies and campaigns. However, the plan fails to offer a coherent policy platform that could stand as an alternative to the LDP's. While, for example, the JSP has softened its historic opposition to the U.S.-Japan Mutual Security Treaty, stating support for the treaty if the opposition came to power, the plan does not elaborate on the JSP's foreign policy posture. In addition, JSP members are urged to cultivate relations with environmental groups, women's organizations and other civic groups, but no domestic policies of interest to these groups are spelled out.

Table 2: February 18, 1990 Lower House Election Results

Party	Seats After July 1986 Elections	Seats When Diet Dissolved January 1990	Seats After February 1990 Elections
Liberal Democratic Party	300	295	286
Japan Socialist Party	85	83	141
Komeito	56	55	46
Japan Communist Party	26	27	16
Democratic Socialist Party	26	26	14
United Social Democratic Party	4	4	4
New Liberal Club	6	0	0
Progressive Party	0	1	1
Independents	9	4	4
Total	512	495*	512

*17 seats were vacant at the time of the February 18 elections.

A principal plank of the plan remains staunch opposition to the LDP-led government's 3 percent consumption tax. However, JSP-orchestrated passage in the upper house last year of legislation that would abolish the tax was not accompanied by what many economists consider concrete, fiscally responsible substitute tax measures. Had the JSP chosen to cooperate with the ruling party rather than taking a rigid stand, political analysts say, it might have realized even greater reductions or exemptions to the tax than currently are under consideration.

This lack of policy "vision," attributable in large part to ideological cleavages within the JSP itself (see JEI Report No. 12A, March 23, 1990), apparently has frustrated the DSP and Komeito, which are anxious to become more active participants in the governing process. Komeito chairman Koshiro Ishida, in fact, has attempted to distance his party from the JSP. Declaring that Japanese politics needs a "third pole" between the LDP and the JSP, Mr. Ishida told the Komeito annual convention in mid-April that the party should clarify its role as the leading "centrist party." He also was sharply critical of the Socialists' inability to forge a working noncommunist opposition party coalition due to its stubborn refusal to compromise on defense and other issues. Komeito and the DSP support the U.S.-Japan Mutual Security Treaty and Japan's self-defense posture.

As mentioned, the DSP, which was weakened by a poor showing in the February 1990 lower house elections, appears to be leaning toward a more cooperative relationship with the ruling party. In addition to objecting to the JSP's intransigence, the DSP along with Komeito also no doubt are examining public opinion polls, which indicate far less support than they did last summer for a coalition government led by noncommunist opposition parties.

Regardless of what happens in Fukuoka next month, the chances are slim for any type of major party coalition. The DSP, for example, has yet to formally abandon its opposition to the LDP-sponsored consumption tax. In addition,

other controversial legislation that the LDP-led government is committed to enacting -- namely, reforms of Japan's electoral system (see JEI Report No. 18B, May 4, 1990) -- could hurt both the DSP and Komeito. They have much to lose from the proposed electoral changes and can be expected to oppose the legislation. While a coalition with the JSP may be dead, these two smaller parties still appear wary of throwing their lots in with the LDP.

Barbara Wanner

Congress Reacts To Super 301 Decision

Members of the commerce, consumer protection and competitiveness subcommittee of the House Energy and Commerce Committee further probed the Bush administration's decision not to name Japan under the Super 301 provision of the 1988 trade act in a hearing May 10. In response to the subcommittee's request to elaborate on the process leading to the decision, U.S. Trade Representative Carla Hills reiterated many of the points made in her appearance before the Senate Finance Committee April 25 when she testified that it would be counterproductive to cite Japan (see JEI Report No. 18B, May 4, 1990).

Ms. Hills told the panel that the successful completion of the Uruguay Round of multilateral trade talks in December is President Bush's top trade liberalization priority. She emphasized that the United States had made significant progress toward its goal of free and open trade with Japan. As in her testimony before the Senate Finance Committee, Ms. Hills described the administration's four-pronged strategy for creating a competitive market environment with Japan: lower systemic barriers to imports through the Structural Impediments Initiative talks; eliminate sectoral barriers through the statutory authority of Section 301 of the 1974 Trade Act and other means; use the Uruguay Round to negotiate enforceable multilateral trade rules; and build constituencies in Japan that will support market-opening measures. Ms. Hills outlined the progress achieved through each part of this strategy and credited the increasing acceptance of free-trade principles by the Japanese public with facilitating the process. She added that White House confidence in the Japanese government's undertakings has been heightened by this public support.

USTR Hills emphasized that the SII talks had produced concrete commitments from the Japanese to reduce structural barriers (see JEI Reports No. 15B, April 13, 1990, and No. 16B, April 20, 1990). She added that much work remained to be done before the final report is compiled in July, including sharpening commitments from both sides and establishing a credible follow-up mechanism.

In defense of the administration's decision not to name Japan as a priority country this year, Ms. Hills reviewed progress on the three Super 301 cases initiated last year, noting that trade disputes involving access to Japan's satellite, supercomputer and forest product markets had been resolved to the satisfaction of the United States. She added that progress also had been made in opening markets for American-supplied telecommunications products and services (see JEI Report No. 19B, May 11, 1990) and that negotiations were under way to liberalize trade in amorphous metals, a subject of long-standing complaint from Allied-Signal Inc., which claims it has been prevented from marketing the product in Japan (see JEI Report No. 17B, April 27, 1990). She also reviewed the status of attempts to open the construction and the semiconductor industries to U.S. competition.